COUNCILMEMBER CARL DEMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: June 16, 2009

TO: Jan Goldsmith, City Attorney

FROM: Councilmember Carl DeMaio Carl DeMaio

RE: Adjustments to COLAs in City Pension System

In response to a request from my office, SDCERS provided an analysis of the impact to the city's Annual Required Contribution (ARC), as well as the Unfunded Actuarial Liability (UAL), from both a one-year and multi-year suspension of the 2% Cost of Living Adjustment (COLA) currently applied to retiree pension benefits.

The response from SDCERS reveals **considerable potential cost savings** as well as a correspondingly **significant reduction in the level of the city's pension debt**.

Specifically, based on the June 30, 2008 actuarial valuation:

- A one-year COLA suspension would decrease the UAL by $58 million, and decrease the ARC by $4.5 million.
- Permanent elimination of the COLA would decrease the UAL by $920 million, and decrease the ARC by $74 million (e.g. the FY 2010 ARC would be $80.2 million rather than $154.2 million).

In my original inquiry, I requested "an analysis of legal options for reform of the COLA provision from the City Attorney's office." Given the receipt of the financial analysis via SDCERS, an overview of legal options is still necessary to evaluate whether the city should consider any potential COLA reform.

I respectfully request your office's legal guidance on the following questions:

- What steps are required to suspend COLAs for one year for those already retired?

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- What steps are required to eliminate, or change the criteria to award, COLAs for those not yet retired – as well as those already retired? (For example, possible changes to the criteria used to award COLAs may include the requirement that COLAs are only awarded in years when the pension system is 100% funded.)

I look forward to exploring this and other possible reforms to the pension system as we continue along the path of financial recovery for our city.

CC: Mayor Jerry Sanders
City Councilmembers
Andrea Tevlin, Independent Budget Analyst
David Wescoe, SDCERS Administrator/CEO

Attachments:

May 1, 2009 Memorandum
June 12, 2009 Letter to SDCERS from Cheiron

COUNCILMEMBER CARL DEMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: May 1, 2009

TO: David Wescoe, SDCERS Administrator/CEO

Jan Goldsmith, City Attorney

FROM: Councilmember Carl DeMaio Carl DeMaio

RE: Exploration of Suspension of Pension Cost of Living Adjustments

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As called for in Municipal Code section 24.1505, pension payouts for benefit recipients are typically adjusted 2% annually for a Cost of Living Adjustment (COLA). It is important to note that all pension plans do not offer a COLA.

With the unfunded liability (UAAL) of the pension system estimated at 64.6% as of March 31, 2009, it is imperative that the City take all steps within the law to reduce the cost of pension benefits. In order to better inform decision-making at the City, I request that SDCERS provide an estimate of budgetary savings attributable to a temporary, one year suspension of the COLA using FY 2010 as a base year.

In addition, please calculate a decrease in the UAAL resulting from a permanent elimination of the COLA.

In order to understand the process by which the City or SDCERS could address this issue, I request an analysis of legal options for reform of the COLA provision from the City Attorney's office.

Due to the probable negative impact of the FY 2011 ARC payment on the City's finances, exploring further options for cost savings in the pension system is essential. I strongly believe that reforming annual COLAs in the pension system can be a critical part of our long term strategy for restoring the financial health of the pension system and the City.

CC: Honorable Mayor Jerry Sanders
Honorable City Councilmembers
SDCERS Board of Administration

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June 12, 2009

Mr. Mark Hovey, CFO
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Mark:

We understand that Jay Goldstone and Councilmember DeMaio have asked about: (1) the estimated savings to the City's UAL and ARC if the annual 2% cost of living adjustment (COLA) for benefit recipients was suspended for one year, and (2) the decrease in UAL if the COLA was eliminated permanently for all current and future benefit recipients.

(1) We estimate that a one-year suspension of the COLA would decrease the UAL by $58 million (from $1,303 million to $1,245 million) and decrease the ARC by $4.5 million, with the entire decrease coming from the UAL component of the ARC.
(2) If the COLA was permanently eliminated, the estimated impact on the UAL is a decrease of $920 million (e.g., FY 2008's UAL would decrease from $1,303 million to $383 million), and a $74 million decrease ($9 million decrease in the Normal Cost, and $65 million decrease in the UAL) in the ARC (e.g., the FY 2010 ARC of $154.2 million would be approximately $80.2 million).

It is important to note that according to the Board's current policy for amortizing future benefit changes the decrease in UAL in both scenarios is amortized over a five-year period. After the end of the five-year period, the savings to the ARC is represented only by the reduction in Normal Cost, which will grow at the same rate as the members' payroll. Finally, all cost estimates shown in this letter are based on the June 30, 2008 actuarial valuation, including all methods and assumptions described in that report.

Please let us know if you have any questions.

Sincerely,
Cheiron

Gene M. Kalwarski, FSA
Principal Consulting Actuary